

Message Text

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ACTION AF-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 INT-05 AGRE-00 /106 W
-----122845 051521Z /47

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FM AMEMBASSY LUSAKA
TO SECSTATE WASHDC 8074

UNCLAS SECTION 01 OF 02 LUSAKA 1162

E.O. 11652: N/A
TAGS: EINV, EIND, EFIN, ZA
SUBJECT: INVESTMENT CLIMATE STATEMENT

REF: STATE 244738

1. BACKGROUND - THE ZAMBIAN ECONOMY, HEAVILY DEPENDENT ON COPPER MINING AND REFINING FOR GOVERNMENT REVENUE AND FOREIGN EXCHANGE AS WELL AS PROVIDING A MAJOR MARKET FOR OTHER DOMESTIC INDUSTRIAL ACTIVITY AND SERVING AS A MAJOR EMPLOYER IN THE MODERN SECTOR, HAS BEEN HARD HIT SINCE MID-1974 BY THE PRECIPITATE DECLINE IN THE WORLD COPPER PRICE. A 4 PERCENT DECLINE IN GDP IN REAL TERMS IN 1977 WAS REFLECTED IN ALL MAJOR SECTORS OF THE ECONOMY. EMPLOYMENT IN THE MODERN SECTOR HAS DECLINED SIGNIFICANTLY AND INFLATION INCREASED TO ABOUT 20 PERCENT IN 1977. THE WORLD COPPER MARKET IS NOT EXPECTED TO IMPROVE FOR SOMETIME. MEANWHILE, ZAMBIAN COSTS OF POPULATION WILL INCREASE SUBSTANTIALLY IN RELATION TO THOSE OF OTHER MAJOR EXPORTS AND ITS LEVEL OF PRODUCTION WILL REMAIN STAGNANT.

2. THE DECLINE IN COPPER REVENUE FROM K339 MILLION
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IN 1974 TO NONE AT ALL BUDGETED FOR 1978 HAS RESULTED IN A LARGE GOVERNMENT DEFICIT ESTIMATED AT K225 MILLION IN 1977. THE DECLINE IN COPPER FOREIGN EXCHANGE EARNINGS, DESPITE SEVERE IMPORT RESTRICTIONS, HAS MEANT A BALANCE OF PAYMENTS DEFICIT OF K225 MILLION IN 1977. PAYMENTS ARREARS HAVE MOUNTED STEADILY DESPITE THE REDUCTION IN THE VOLUME IN IMPORTS WHICH HAS

REDUCED THE AVAILABILITY OF INPUTS NECESSARY FOR
SUSTAINED ECONOMIC ACTIVITY.

3. CONSEQUENTLY, ZAMBIAN LEADERS HAVE STRESSED THE
NEED TO REORIENT THE ECONOMY TOWARDS A MORE SELF-
RELIANT BASE. THE GOAL AS OUTLINED IN THE 1977
BUDGET SPEECH IS TO ENCOURAGE LOCAL AGRICULTURE AND
RELATED PROCESSING INDUSTRIES GEARING THEM TO MEET
DOMESTIC NEEDS AND TO PROVIDE A SUBSTANTIAL VOLUME
OF EXPORTS. LAST OCTOBER THE PRESIDENT SET A TARGET
OF EXPORTING 50 PERCENT OF INCREASED AGRICULTURAL
PRODUCTION. THE THIRD NATIONAL DEVELOPMENT PLAN,
ORIGINALLY SCHEDULED FOR INTRODUCTION IN 1977, IS
NOW BEING RECAST TO IMPLEMENT THESE GOALS.

4. THERE IS STILL SOME DEBATE AS TO THE METHOD OF
IMPLEMENTING THE GOALS BEING ESTABLISHED. WHILE
ZAMBIA HAS A MIXED ECONOMY, GOVERNMENT INVOLVE-
MENT IN THE INDUSTRIAL SECTOR IS SIGNIFICANT. THE
TREND, HOWEVER, SEEMS TO BE TOWARDS GREATER
RELIANCE ON THE PRIVATE SECTOR
WITHIN ESTABLISHED
LIMITS. THE INDUSTRIAL DEVELOPMENT ACT OF 1977
WAS THE FIRST INDICATION OF THE GOVERNMENT'S THINKING
IN THIS MATTER.

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5. THE INDUSTRIAL DEVELOPMENT ACT OF 1977 - THE
INDUSTRIAL DEVELOPMENT ACT WHICH BECAME LAW ON AUGUST
30, 1977, SETS OUT COMPREHENSIVE TERMS FOR THE

LICENSING OF ALL MANUFACTURING ACTIVITY IN ZAMBIA.
APPLICATIONS ARE TO SPECIFY THE TECHNOLOGY TO BE USED
AS WELL AS THE LOCATION AND MUST BE ACCOMPANIED
BY A DETAILED FEASIBILITY STUDY. PROVISION IS MADE
FOR OBJECTION BY A PERSON ALREADY MANUFACTURING
SIMILAR GOODS WHO DEEMS HIMSELF ADVERSELY AFFECTED
BY THE PROPOSAL. DISCRETION IN GRANTING THE LICENSE
LIES WITH THE MINISTER OF COMMERCE AND INDUSTRY BUT
HIS DECISION CAN BE APPEALED. NO LICENSE CAN BE
VARIED OR TRANSFORMED WITHOUT PRIOR APPROVAL NOR CAN
ANY MAJOR CHANGE BE MADE IN THE CONTROL OF THE COMPANY. THE MINISTER
MAY, HOWEVER, GRANT EXEMPTIONS
TO THESE LICENSING PROVISIONS.

6. THE ACT ALSO REGULATED THE TRANSFER OF
TECHNOLOGY AND EXPERTISE. IN ADDITION TO REQUIRING
THE REGISTRATION OF ALL AGREEMENTS FOR SUCH TRANSFER,
IT AUTHORIZES THE MINISTER TO REGULATE BOTH THE

PAYMENT OF ROYALTIES AND FEES AND THE CONDITIONS UNDER WHICH TECHNICAL ASSISTANCE CAN BE ACCEPTED. GUIDELINES ARE LAID DOWN FOR SUCH COFRANCE TO ENSURE REASONABLE FEES AND TERMS OF USE AND TO PROHIBIT RESTRICTIONS IN SUCH MATTERS AS USE OF COMPETITIVE TECHNIQUES, CONTROL OF MANAGEMENT, RESTRICTION ON VOLUME OR STRUCTURES OF PRODUCTION, THE MANNER OF SALE OF EXPORT, AND THE SOURCES OF SUPPLY OF INPUTS.

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7. THE ACT SETS OUT INCENTIVES FOR FOUR CATEGORIES OF MANUFACTURING ENTERPRISE: THOSE WHICH ARE DESIGNATED AS "PRIORITY" ENTERPRISES; THOSE WHICH EXPORT A SUBSTANTIAL AMOUNT OF THEIR PRODUCT; THOSE LOCATED IN RURAL AREAS; AND THOSE WHICH UTILIZE A "SIGNIFICANT AMOUNT" OF FOREIGN CAPITAL. THE INCENTIVES WHICH APPLY SPECIFICALLY TO FOREIGN CAPITAL CONCERN THE RIGHT TO REMIT THE VALUE OF SUCH CAPITAL ON THE CESSATION OF THE BUSINESS INTEREST AND TO REMIT PROFITS AND DIVIDENDS IN THE YEAR FOLLOWING THEIR ACCURAL, BOTH TYPES OF REMITTANCE BEING DEPENDENT ON THE EXCHANGE CONTROL REGULATIONS IN EFFECT AT THE TIME. REMITTABLE PROFIT WHICH IS REINVESTED IS GIVEN THE SAME STATUS AS THE INITIAL CAPITAL FOR PURPOSES OF REPATRIATION. IMMUNITY FROM NATIONALIZATION IS CONDITIONED ONLY BY THE "HIGHEST CONSIDERATIONS OF PUBLIC INTEREST". THE INCENTIVES WHICH APPLY TO "PRIORITY" ENTERPRISES, (I.E. THOSE WHICH MAKE MAXIMUM USE OF LOCAL MATERIALS, PRODUCE INTERMEDIATE GOODS USED BY OTHER ZAMBIAN INDUSTRIES, OR DIVERSIFY THEIR INDUSTRIAL STRUCTURE

AND WHICH CREATE EMPLOYMENT, DEVELOP INDUSTRIAL
SKILLS OR TECHNOLOGY, OR PROMOTE THE INDUSTRIAL DEVELOP-
MENT OF RURAL AREAS), COVER PREFERENTIAL TREATMENT
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IN GOVERNMENT PURCHASING, IN GRANTS OF IMPORT LICENSES,
IN CUSTOMS AND SALES TAX REBATES, AS WELL AS RELIEF
FROM INCOME TAX AND FROM THE SELECTIVE EMPLOYMENT TAX
(ON NON-ZAMBIANS) AT THE DISCRETION OF THE MINISTER.
EXPORT ENTERPRISES ARE OFFERED RELIEF FROM TAXES
ON THE IMPORT OF MACHINERY AND PREFERENCE IN THE
GRANTING OF IMPORT LICENSES AND, AT THE DISCRETION
OF THE MINISTER, RELIEF FROM INCOME TAX AND FROM
IMPORT DUTIES ON RAW MATERIALS AND IN THE ADJUSTMENT
OF EXPORT TARIFF RATES.

8. THE GOVERNMENT ATTITUDE TOWARDS PRIVATE
FOREIGN INVESTMENT- STATEMENTS OF TOP GOVERNMENT
OFFICIALS STRESS THAT THE INDUSTRIAL DEVELOPMENT
ACT IS DESIGNED TO ENCOURAGE THE INFLOW OF PRIVATE
INVESTMENT WITHIN THE FRAMEWORK OF THE COUNTRY'S
ECONOMIC OBJECTIVES. THE PRESIDENT, IN HIS OCTOBER
1977 ADDRESS TO A SPECIAL SESSION OF THE NATIONAL
ASSEMBLY INVOKED TO DEAL WITH THE ECONOMIC SITUATION,
LOOKED TO IT TO STIMULATE THE FLOW OF BOTH LOCAL AND
FOREIGN CAPITAL. THE SELECT COMMITTEE APPOINTED
TO IMPLEMENT HIS DIRECTIVE POINTED TO THE ACT AS AN
IMPORTANT STEP TOWARDS IMPROVING THE INVESTMENT
CLIMATE. THE COMMITTEE, CALLING FOR FURTHER STEPS
TO ENCOURAGE BOTH LOCAL AND FOREIGN PRIVATE ENTER-
PRISE, URGED THE "INFLAMATORY STATEMENTS" WHICH
MIGHT FRIGHTEN FOREIGN INVESTORS BE DIS-
COURAGED AND CALLED FOR AN INCREASED VOICE FOR THE
PRIVATE SECTOR IN THE FORMULATION OF ECONOMIC
POLICY. IN HIS JANUARY 1978 BUDGET SPEECH, THE FINANCE
MINISTER CALLED FOR EFFECTIVE IMPLEMENTATION OF THE
ACT. SUBSEQUENTLY HE INDICATED THAT, EXCEPT IN
MINING VENTURES, THE GOVERNMENT WILL
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NOT INSIST
UPON A 51 PERCENT SHARE IN THE EQUITY OF INCOMING ENTERPRISES.
THE MINISTER OF AGRICULTURE,

EXPRESSING THE URGENT

NEED FOR LARGE-SCALE PROJECTS IF ZAMBIA IS TO BECOME
SELF-SUFFICIENT IN FOOD, HAS DECLARED THE
COUNTRY RECEPTIVE TO FOREIGN INVESTMENT IN AGRICULTURE
WITHIN THE LINES OF GOVERNMENT POLICY.

9. REFERENCES

GOVERNMENT OF:

THE INDUSTRIAL DEVELOPMENT ACT, 1977

MINISTRY OF DEVELOPMENT PLANNING, ECONOMIC REPORT 1976

MINISTER OF DEVELOPMENT PLANNING, ECONOMIC REPORT 1977

MINISTER OF FINANCE, BUDGET ADDRESS, JANUARY 1977

MINISTER OF FINANCE, BUDGET ADDRESS, JANUARY 1978

NATIONAL ASSEMBLY, REPORT OF THE SPECIAL PARLIAMENTARY

SELECT COMMITTEE APPOINTED ON FRIDAY, 14TH OCTOBER, 1977

(CONTAINS TEXT OF THE PRESIDENT'S SPEECH TO THE

NATIONAL ASSEMBLY, OCTOBER 14, 1977)

U.S. GOVERNMENT:

U.S. DEPARTMENT OF COMMERCE, FOREIGN ECONOMIC TRENDS

AND THEIR IMPLICATIONS FOR THE UNITED STATES: ZAMBIA,

AUGUST 1977 (CONTAINS TABLE OF KEY ECONOMIC INDICATORS)

STATISTICAL INFORMATION:

ESTIMATED

BOOK VALUE OF PRIVATE OVERSEAS DIRECT

INVESTMENT BY OECD COUNTRIES IN ZAMBIA, END OF 1975

ARE LISTED AT DOLS 200 MILLION BY THE OECD DEVELOPMENT

ASSISTANCE COMMITTEE.

FOR COMPREHENSIVE DATA ON THE ZAMBIAN ECONOMY, SEE

THE DEPARTMENT OF COMMERCE TRENDS REPORT CITED ABOVE.

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Disposition Event:
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SAS ID: 3070171
Secure: OPEN
Status: NATIVE
Subject: INVESTMENT CLIMATE STATEMENT
TAGS: EINV, EIND, EFIN, ZA
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/1e11eeb5-c288-dd11-92da-001cc4696bcc
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